

**CROATIA
AGRICULTURE/AGRIBUSINESS
ASSESSMENT**

**PREPARED FOR USAID/CROATIA
OFFICE OF ECONOMIC GROWTH**

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CROATIA – AGRICULTURE/AGRIBUSINESS ASSESSMENT
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I. Executive Summary

A. Findings

Agriculture and agribusiness are important components of the Croatian economy, especially when considered in terms of their contribution to employment. Croatia produces high quality agricultural products and has untapped production and processing potential. Developments, especially in external trade relations and growth of the Croatian tourism industry, are creating a window of opportunity for growth of the agriculture/agribusiness sector. Elements within the Croatia higher-value food industry will be able to take advantage this opportunity, but it is not clear whether their growth will act as a driver for development of the broader agricultural sector, including smaller producers.

While trade agreements will create opportunities for Croatian producers and processors, they will also further open Croatian markets to imported products. Croatia is already a net importer of food, with imports of agricultural products now approximately double those of exports. High value, processed food items and raw materials for processing in the meat and dairy sector are two of the fastest growing segments of imported agricultural products.

In terms of domestic production, small farms contribute a significant portion of agricultural produce, albeit at high cost and often for the informal channels. Livestock are important for private family farms. In March of 2002, government data indicated that private family farms were the source of 93 percent of all domestic raw milk and 50 percent of live poultry. Small farms are also the principle source of wine grapes, with about ½ of their total production entering market channels. Croatia's producers are not, however, meeting domestic demand, with deficits in such products as fruit, meat and meat products, milk and dairy products, vegetables including potatoes, and animal feed. Import/export data indicate that Croatia is currently self sufficient only in wheat, corn, chicken, wine and eggs.

While there are some opportunities for Croatia to export high-quality food the Government of Croatia (GOC) does not seem to have a competitive export strategy. Various Ministries are promoting "traditional" Croatian products

including specialty cheese (Pag Cheese), a Slavonian Salami (Slavonski Kulen), and "old Slavonian plum brandy". Unfortunately, these are not likely to be competitive products on global markets and will have limited expansion potential due to production constraints. Croatia's natural, organic and other high-value products with wide consumer recognition in the west such as olive oil, figs and wines are likely to be better choices for expansion of the export market in agricultural products.

The tourism industry has been identified as a strategic growth sector, with the GOC investing in infrastructure and providing other incentives to private investment. The objective is to generate an additional \$1.3 billion in revenue over the next three years. This could mean a significant increase in the demand for high quality fresh and processed food products.

The way in which consumers acquire their food is changing in Croatia, and this will have implications for Croatia's food industry. Although small retail shops and open city markets are still the dominant food retail channels in Croatia, more developed market formats are rapidly gaining share. Rapid supermarket expansion similar to that seen in other east European markets (e.g., Poland, Czech Republic) is expected to continue. If domestic producers wish to retain (or expand) the percent of domestically produce foodstuffs that Croatians purchase, they will have to get their products into supermarket supply chains.

There is a question, however, as to the ability of producers to get their products onto supermarket shelves or onto the tables of Croatia's tourist hotels and restaurants. Producers often continue to produce what they have always produced, or what they can produce, instead of figuring out what is in demand. This lack of market savvy, as well as weak supply management and underdeveloped supply chain infrastructure keep domestic producers small players in the Croatian food industry.

Croatia agricultural and processed products are relatively costly due, in part, to high input and production costs. Poor genetics among livestock herds means neither meat nor dairy production are maximized. Small production units increase transaction costs for processors or other intermediaries, and government subsidies reward inefficient production. If domestic producers are to compete with

imported products, they must find ways to contain these costs.

There are additional issues around farm size, as constrained by access to land to form commercially-scaled family farms, and access to credit for agricultural producers and SMEs due to collateral constraints.

B. Recommendations

To accelerate agricultural growth, two inter-linked assistance interventions are recommended. The first component would promote development of market linkages throughout the food industry chain. The second intervention component would promote the development of small and medium enterprises, including producer cooperatives.

The proposed market linkage intervention targets small or medium sized processors/buyers and medium-sized producers or small producer coop managers with an interest in developing efficient domestic supply chains. This intervention would have two thrusts. The first would be to develop links between producers/processors and the tourism sector. The other would be the development of market linkages in animal production and processing, in both dairy or pork.

Assessing Croatia's current and possible production capacity and identify potential markets in the processing and tourist industry would be a necessary first step. Depending on assessment findings, the intervention will work to build capacity in meeting production quality requirements, promotion or processing. Alternatively, brand name development and capacity to meet customer delivery requirements may be considered more critical. The development of market information systems, improving the function of existing market information systems and the training of cooperative or association leadership on market information utilization are other possible areas of assistance.

The second intervention component would provide assistance, including strategic, business and technical planning, to SMEs and producer organizations. Hands-on technical assistance would be supplemented by short courses in topics

such as food industry safety and quality standards, cost accounting, financial planning, organizational development, personnel management, etc. Where producer organizations do not exist, technical assistance would be provided in the establishment of associations and/or cooperatives. Some assistance in obtaining improved genetics might also be appropriate.

A small targeted intervention is recommended to build capacity of local administrations' to manage the land resources of the former agrokombinats. This activity could be arranged through a redirection or modest expansion of funds of an existing SO 1.3 project contract. A direct intervention for rural finance is not recommended at this time. Instead, it is advised that activities to improve agricultural enterprises' access to credit be built into the broader agricultural sector development activity. Intervention will be aimed at mobilizing existing private sector liquidity in the banking sector.

II. Introduction and Process

Agriculture and agribusiness are important components of the Croatian economy. Together, they represent a relatively large proportion of both GDP and employment. Croatia produces high quality agricultural products and has untapped production and processing potential. Performance in this sector over the past decade has fallen well below its potential, however, with food imports growing more rapidly than domestic production and exports.

Changes in the agriculture and agribusiness sector are underway as the prospect of future accession to the EU becomes increasingly important in the policy arena. This is a pivotal time in that process and there is window of opportunity to affect the growth of this sector. Elements within the Croatia higher-value food industry will continue to develop, but it is not clear whether this growth will act as a driver for development of the broader agricultural sector, including smaller producers. Unless producers are able to provide quality product at competitive prices, processors will continue to source an increasing share of their raw materials abroad.

Growth in the tourism sector presents another opportunity for Croatia's domestic food industry. A growing tourism sector will demand increasing quantities of fresh and

processed food. Participation of Croatia's producers and processors in this expanding market, however, is not guaranteed.

Over a three-week period (May 20 - June 7, 2002) a three-person team from USAID Washington, with support from an independent Croatian consultant and USAID Croatia staff, undertook an intensive effort to gather information on the sector, identify constraints to growth in the agricultural sector and explore areas for possible USAID interventions to address those constraints. The team met with Mission/Croatia staff, USAID project implementers, USDA/FAS, representatives from the Ministries of Agriculture and Forestry, and Small and Medium Enterprises, the Chamber of Economy, other donors, NGOs and international financial organizations. Private sector interviews included producers and cooperative managers, processors, hotel managers, market intermediaries and commercial banks. The team made two field trips -- one to Slavonia (Osijek, Vukovar, Pakrac, etc.) and one to the Dalmatian coast and hinterland (Zadar, Split, Knin).

Reports and documents from many sources rounded out the information gathering efforts. While Croatia compares favorably with other transition economies in terms of availability of information, the team did encounter some difficulty in finding data that would allow for more in-depth analysis. In many cases, data was either conflicting or simply not available. It was difficult to confirm, for example, how many full-time and part-time farmers exist in Croatia. Moreover, employment data is misleading in that it does not include those engaged in agricultural production. Similarly, information on the operating size of farm units, including rental land, is not available.

The following reflects what the team found and concluded regarding the sector, its constraints, opportunities and areas where USAID could make valuable development assistance contributions. Any errors of fact are team responsibility, and the conclusions and recommendations are those of the assessment team and do not represent official USAID positions.

III. The Role of Agriculture and Agribusiness in the Croatian Economy

A. General and Structural Role

The agricultural sector, including fisheries and agricultural processing, is only modestly important for the Croatian economy in purely economic terms. In 2001 the sector provided about 17 percent of Gross Domestic Product (10 percent from primary production and 7 percent from processing). The sector is more important from an employment perspective with an estimated 100,000 full-time private farmers, 400,000 part-time farmers, 33,000 employees in agrokombinats, 7,400 workers in the fisheries sector and 45,000 employees in food processing enterprises. The labor force in Croatia, excluding agriculture, is about 1.7 million made up of 1,258,000 employed and 400,000+ unemployed.

Croatia has some 3.2 million hectares of agricultural land with about 2.02 million hectares of arable and 1.13 million hectares of pastures. There are also small amounts of lakes, marshlands and fishponds. The area under vineyards is over 60,000 hectares with about 69,000 hectares of orchards. Some 80 percent of all land is owned by private farmers with an average farm size of about 3.0 hectares comprised of several parcels. The remaining state land is in larger blocks.

B. Sector Performance

From 1990 to 2000, growth in agricultural production was negative although the average rate of decline was less than for manufacturing. More worrisome is the decline in "agricultural self-sufficiency" from a rough balance of agricultural exports and imports in the mid-1990's to a substantial deficit by the late 1990's as exports have fallen. In 2001, agricultural processed product exports of \$470 million compare to food and agricultural imports of \$845 million. In dollar terms the largest deficits are in fruits, meat and meat products, milk and dairy products, processed fruit, vegetables including potatoes, animal feeds and coffee. Leading exports are fish, wheat, processed meat, alcoholic beverages including wine, and tobacco. Import/export data indicate that Croatia is currently self sufficient only in wheat, corn, chicken, wine and eggs.

C. The Livestock Subsector

Livestock and livestock products are highly important in the agricultural sector. The cattle herd is about 438,000 head and has been largely constant since 1997. Swine numbers have been slowly increasing and now total about 1.2 million. Sheep and poultry numbers have shown the most significant growth in recent years and in 2001 totaled nearly 540,000 head of sheep and 11.7 million poultry.

Livestock are very important for private family farms. In March of 2002, government data indicated that private family farms were the source of 93 percent of all raw milk sold in Croatia and that such sales provided 70 percent of family farm income for that month.¹ Private farms also provided almost 50 percent of live poultry sales, the second highest source of income for these farms.

D. The Grain Subsector

Corn is the most important cereal crop followed by wheat. Together they occupy about 50 percent of the cultivated area. Smaller areas are devoted to barley, soybeans, sunflowers and a variety of other crops. Yields of corn have increased since the early 1990's while wheat yields appear to have declined. The area under soybeans has steadily increased since 1997. In general, areas planted are significantly influenced by the levels of government subsidies or incentives provided.

E. The Fruit, Vegetable, Olive and Viticulture Subsectors

Areas under fruits and vegetables total about 70,000 and 120,000 hectares respectively. A wide variety of both fruits and vegetables can and are produced because of the Mediterranean and continental climatic conditions found in different areas of Croatia. The most important fruit crops are plums, apples and cherries. Potatoes, cabbage, onions, beans and tomatoes are the most important vegetable crops. A large share of fruit and vegetable production is for home consumption.

¹ Source: State Statistical Source of Croatia

Olives are produced along the Adriatic coast and on islands in the Adriatic Sea. There are nearly 30,000 hectares under olive production mainly in small plantings.

The total area of vineyards is approaching 60,000 hectares with new plantings reportedly underway in advance of eventual EU accession. Production is largely from small family farms with about ½ of total production entering market channels. About 800 controlled wines are produced by processing facilities, producer cooperatives and larger individual producers. Croatian wines tend to be expensive with only about \$8.0 million exported in 2001.

F. The Fisheries Subsector

Croatia has over 31,000 square kilometers of territorial waters in the Adriatic and a sizeable fishing industry. Total catch has been declining in recent years due to an old and poorly equipped fleet as well as over fishing in some areas. Sardines are the most important fish species and make up 80-85 percent of the canned fish produced by the well-developed canning industry. In recent years, tuna exports have grown and there is increasing saltwater fish farming of tuna and sea trout. Exports of fish (fresh and processed) totaled over \$50 million in 2001.

Total freshwater fish production has dropped by about 80 percent since 1990 but still totals around 3,000 tons annually. The main species are carp and trout.

IV. Agricultural Trade

By signing on to several key trade agreements, Croatia's markets have been liberalized and integrated more substantially into regional and world markets. Croatia acceded to the WTO in November 2000 and has free trade agreements with Bosnia-Herzegovina, Hungary, Macedonia and Slovenia. Negotiations have been concluded with Czech Republic, Slovakia and Poland and negotiations are underway with Bulgaria, Turkey, Romania and Yugoslavia. The latter agreement is likely to have an immediate impact on the flow of goods, including agricultural products since Croatia and the current Yugoslavia were highly integrated economies when Croatia was a member of the Yugoslav Federation. The Stabilization and Association Agreement (SAA) with the European Union provides most agricultural products with free access to the EU market and gradually extends tariff

preferences to the EU, providing free access for 70 percent of the value of EU industrial and agricultural products currently exported to the Croatian Market².

Technical barriers to trade with the EU exist in the area of bovine meat and livestock imports. As a precaution against the spread of animal diseases such as BSE (Bovine Spongiform Encephalitis) and FMD (Foot and Mouth Disease), the Ministry of Agriculture has banned imports of beef and cattle from Austria, Belgium, Czech Republic, Denmark, Finland, France, Greece, Italy, Japan, Lichtenstein, Luxemburg, Netherlands, Germany, Portugal, Republic of Ireland, Slovakia, Spain, Slovenia, Switzerland, Great Britain, and Northern Ireland³. Consequently Croatia is confronting a beef and dairy cattle shortage since there are few options for meeting the need for live animals. Croatian processed meat exporters are also experiencing technical barriers in exports to the EU⁴.

Imports of agricultural products are approximately double those of exports, making Croatia a large net importer of food. According to the Croatian Chamber of Economy, the value of imports of agricultural products in 2001 was \$845 million, while the value of exports for the same year was \$470 million. The highest value export is tobacco and tobacco products which made up 20 percent of the total export value of agricultural products in 2001⁵. The global food and agriculture industry sees Croatia as an excellent growth market for imports of agricultural, fishery and forestry products, with annual projected growth of imports at 6 percent. The consumer foods category is seen as the number one prospect for imports, with untapped potential in the Dalmatian coast in particular⁶.

V. Agriculture/Agribusiness Policy Environment

According to the Working Program of the Government of Croatia "The prosperity of family farms will be given central priority in the design and implementation of agricultural policy...The future Agricultural Law as the umbrella law will determine in greater detail the

² Croatia Commercial Country Guide 2002, www.export.gov

³ Croatia Livestock and Beef Products Situation 2002. USDA GAIN Report, A. Misir

⁴ Interview with Mr. George Gavrilovic, Gavrilovic Meat Company, 29 May 2002

⁵ Croatian Chamber of Economy, www.hgk.hr

⁶ Croatia Commercial Country Guide 2002, www.export.gov

objectives and measures of agricultural policy...".⁷ In turn, the Agriculture Act outlines a series of general principals that will be followed.⁸

In general, the policy environment for agricultural producers is being heavily influenced by the expectation that Croatia will enter the EU at some time in the future. Decisions are being made and actions taken to enable entry in the best position possible. Increased production now of milk and olives or increased areas in vineyards or under other certain crops has important implications for future production-based subsidies from the EU.

Guaranteed prices and/or subsidies in some form are currently provided for many agricultural products including milk, wheat, corn, olives, soybeans, tobacco and meat.⁹ There are also subsidies to encourage the establishment of vineyards and orchards. This current system of subsidies contributes to the situation of Croatian farmers being high-cost producers of many agricultural commodities. In line with EU practice, there are plans to convert area-based subsidies to production subsidies and to restrict subsidies to individuals or entities registered as "commercial" farmers. Individuals who are "non-commercial" producers will receive fixed social welfare payments and not be eligible for production subsidies.

For agricultural processing companies and domestic consumers, the free-trade policies of the Croatian government enable imports of cheaper products.

VI. Agricultural Markets

A. Croatia: A Net Food Importer

Increasingly Croatia's domestic market for agricultural products has been supplied by imports. The value of imported agriculture, forestry and fishery products grew approximately 40 percent between 1997 and 2000¹⁰. High value food items represent the largest and fastest growing

⁷ Government of the Republic of Croatia, "Working Programme of the Government of the Republic of Croatia for the Period 2000-2004," Zagreb, 8 February 2000.

⁸ Agriculture Act signed by the President of Croatia on July 16, 2001.

⁹ A recent web article (April 2002) indicated there are a total of 136 forms of subsidies currently provided with a value of about Kn 1.6 billion (about \$200 million) in 2001. WTO obligations require gradual reductions in such direct subsidies but new subsidies for capital investment, rural development and in the form of income payments may be introduced that would more than offset any reductions.

¹⁰ Ibid

segment of imported agricultural products. Raw materials for processing in the meat and dairy sectors are another rapidly growing component of imported agricultural products. Domestic production only provided 55-60 percent of the milk consumed in 2001 and the meat processing sector is functioning well below current capacity due to lack of pork and beef¹¹.

Although Croatian consumers seem to prefer domestically produced food and they value local products as "natural", consumer demand for food in Croatia remains price elastic. There is little evidence that Croatian consumers are willing to pay a premium for their preference of locally produced or "natural" food. If the price of a Croatian product is cost-competitive with that of the comparable imported product, Croatian consumers will choose the domestic product. Likewise, meat processors will buy domestically produced pork only if the price is competitive with imported pork¹². The price of domestically-produced milk is high due to tight government control of prices paid to farmers and there is great concern over increasing imports of more affordable, shelf-stable milk from eastern European countries with preferential customs agreements¹³.

The high cost of domestic production and the relatively high purchasing power of the Croatian consumer have combined to make Croatia a prime target for a European food industry hungry for new markets. Furthermore, advertising is a key marketing tool in Croatia. Television reaches 90 percent of the domestic consumer market and the advertising sector is experiencing 12 percent growth, making it easy for foreign products to be presented to the market using the same formats that are successful in western markets.

B. Retail Market Changes

Although small retail shops and open city markets are the dominant food retail sales channel in Croatia, more developed market formats are rapidly gaining share. In Western Europe 80 percent of retail food sales occur in supermarkets and the future of the Croatian food retail sector is expected to trend in that direction. Already, the traditional retail formats in Croatia's urban areas are losing market share to supermarkets. The fresh fruit and

¹¹ Croatia Dairy and Milk Products Situation 2002. USDA GAIN Report, A. Misir.

¹² Interview with Mr. George Gavrilovic, Gavrilovic Meat Company, 29 May 2002

¹³ Croatia Dairy and Milk Products Situation 2002. USDA GAIN Report, A. Misir.

vegetable sub-sector is an example of a product line where the largest share of retail trade occurs in city markets (45 percent of fruit sales and 64 percent of vegetable sales)¹⁴. Patrons of city markets tend to be older consumers who make purchases several times per week. Trade in city markets is expected to decline, however, as consumers turn to the convenience offered by supermarkets. Supermarket shoppers are expected to demand high product quality and the freshness offered by locally produced fruits and vegetables, however, and supermarkets in Western Europe have shown that they can provide that to their most demanding customers. Supermarket chains have penetrated the Croatian market and are well established in the urban areas. Rapid expansion similar to that seen in other east European markets (e.g., Poland, Czech Republic) is expected in Croatia. To retain, let alone expand, the share of the kuna that Croatians spend on domestically produced food, Croatian producers will have to channel their products into supermarket supply chains.

C. Tourism Market Potential

The tourism sector has been identified as a strategic growth sector for Croatia and is a possible expanding market for Croatian agricultural products. Tourism performed well in 2001, but may face capacity constraints this summer. The total number of overnight stays last year grew by 11 percent over 2000, with a total of 43 million overnight stays and 7.7 million new arrivals. Overall, foreign travelers accounted for 89 percent of overnight stays, spending \$2.7 billion enjoying the 1,000 miles of coastline, many islands along the Adriatic and other regions of Croatia. The pressing problem is that this sector has made little progress in attracting foreign investment and thus has not managed significantly to improve in either quality or quantity. Privatization of assets in the tourism industry has proved disappointing, with 95 state-owned hotel companies owning a total of 150 hotels. Only 30-40 private companies operate hotels. Tenders for part of the state-owned portfolio were launched in 2001, but attracted only one bidder, below the asking price¹⁵.

The slow expansion progress to date notwithstanding, potential investors are bullish on the Travel and Tourism

¹⁴ Croatia Fresh and Deciduous Fruit Report 2001. USDA GAIN Report, M. Radman

¹⁵ EUI Country Report, Croatia, February 14, 2002. The Economist Intelligence Unit

sector¹⁶. The GOC is undertaking programs to improve infrastructure (roads and airports) and provide incentives for increased investment in the sector. There is also a determination to plan expansion that minimizes environmental impact on the coast, thereby preserving the competitive advantage that Croatia has as one of the cleanest coastal areas in the Mediterranean. If this effort stays on track, the tourism sector is likely to shift the tourism customer base from "value" seekers to higher income international tourists with demanding preferences for high-quality, high-value food products.

D. Export Markets

Fortunately, Croatia is not vulnerable to the lure of export markets based on low domestic labor costs that can produce goods more cheaply than competitors. There are some opportunities for Croatia to export high-quality food products to markets that will pay a premium for quality. Regardless of whether those products are going east or west, Croatia must be able to compete on the basis of quality.

The GOC does not seem to have a competitive strategy for positioning Croatia as an exporter of food products. The Ministry of Agriculture and the Chamber of Economy promote "traditional" Croatian products as those with greatest export potential. These include a specialty cheese (Pag Cheese), a Slavonian Salami (Slavonski Kulen), and "old Slavonian plum brandy"¹⁷. Unfortunately, these are not likely to be viewed widely as competitive products on global markets and are likely to be available only in limited quantities due to the regional production constraints (Pag Cheese is made only from the milk of sheep that graze on Pag Island, with a carrying capacity of 1 sheep per hectare). Croatia's natural products, organic products and high value products with wide consumer recognition in the west such as olive oil, figs and wines are likely to be better choices for expansion of the export market in agricultural products. A rigorous competitiveness analysis is well beyond the scope of this assessment, but should be undertaken with regard to the viability of Croatian products in world markets.

¹⁶ Croatia Commercial Country Guide 2002, www.export.gov

¹⁷ Croatian Chamber of Economy, www.hgk.hr

VII. Agricultural Education, Extension and Research

A. Agricultural Education

Croatia has four higher education institutions producing college graduates with degrees in agricultural subjects. These institutions have 294 faculty and a student enrollment in 2000/2001 of over 3,100. Based on a visit to one faculty, it would seem that academic programs have not changed as quickly as the agricultural environment meaning students may not be suitably trained for the new market economy. There is also a question whether Croatia can absorb the trained manpower being produced. Currently, unemployment roles include 5,002 agricultural technicians and graduates.

B. Agricultural Extension

During the period of the agrokombinats, these organizations were the primary source of agricultural extension expertise, although they may not have reached small private farms in all areas. With the demise of the kombinats this service completely disappeared.

With World Bank support, the Ministry of Agriculture has created an extension service with 166 agronomists on staff or approximately 8 agents per county. There is also a central administrative and technical support staff. The agents tend to be relatively inexperienced. The current strategy is to begin charging fees for some services with the expectation that this will allow an expansion in extension agent numbers. World Bank support will end this year.

Rural development staff from several donor groups as well as Croatian private sector and small farmers reported that the extension agents did provide needed services and were helping meet a real need. Several organizations had made them part of decision-making bodies on loans, grants and general development programs. It was also noted that their effectiveness was sometimes constrained by a lack of operational funding that prevented extensive travel.

C. Agricultural Research

In addition to the institutions of higher education there are three public institutions conducting agricultural research in Croatia (Osijek, Porec and Split). Research is conducted in a wide range of areas but results do not appear to be widely distributed. These institutes are staffed by 30 researchers, 23 assistant researchers and 35 post graduate staff.

Three additional institutes in Zagreb, Jastrebarsko and Split conduct research on animal health issues, forestry and fisheries. Staff numbers for these institutes were not available. The World Bank has provided limited support for the research system, but this support is scheduled to end September 2002.

VIII. USAID and Other Donor Assistance in the Agricultural Sector

A. USAID

Current USAID assistance to the agricultural sector is being provided as an element of activities with non-agricultural objectives. Programs under S.O. 3.1. ("Accelerated Return and Sustainable Reintegration of War-Affected Populations,") provide assistance to returning families, who have no or few productive assets; it also helps small producers and producer groups in war-affected areas achieve greater commercial viability through asset acquisition, training and organizational development. Among other program objectives and interventions, the ECRA program links agricultural producers and producer organizations in war affected areas to sources of financing and markets. Under the S.O. 1.3 ("Growth of a Dynamic and Competitive Private Sector") Croatian Enterprise Privatization Project, assistance is being supplied for the privatization of several agrokombinats. Under the same S.O., the Croatian Enterprise Promotion Project is developing the capacity of local Croatian consultants to provide services on HACCP and other issues relevant to business development.

B. Other Donors

A large number of organizations are providing assistance to rural residents, largely in war-affected areas. These

include the UNDP, the World Bank, GTZ and several NGOs. Many of these programs have involved credit and they are described in more detail in Section IX D below.

The European Union provides technical support to both the Ministry of SME and the Ministry of Agriculture. In the agriculture sector, E.U. support is targeted to trade related capacity building with technical assistance, training and some infrastructure support to Croatia's sanitary and phyto-sanitary capacity with a focus on regulatory aspects.

The World Bank through a Farmer Support Services loan has provided assistance to agricultural research and extension, animal health and pasture and fodder development with more limited assistance to seed industry development and policy analysis. They are planning a major activity in land cadastre.

The UNDP is assisting with the development of Local Economic Development Agencies and has provided start-up packages for vulnerable farm families.

IX. Constraints

Agribusiness enterprises face many of the same constraints faced by all enterprises in Croatia—high taxes, high labor costs, excess capacity, etc. There are also constraints more specific to the agricultural and agribusiness sector. In the following only key constraints identified by the assessment team are discussed.

A. Links to Markets

In many meetings during this assessment the large and growing import share of agricultural products was raised as a big problem in Croatia. In most cases, the imports were cited as a "cause" of Croatia's competitive problems in agriculture. This is clearly not the case. The large and growing imports are a "symptom" of the Croatia's competitive problems in agriculture. The phrase "We can't compete with imports!" should be turned around to "How can we compete with imports?"

Forging stronger links between producers and their markets is critical to reducing the cost of domestic products.

Improvements in supply chain management are badly needed in the Croatian food industry. Not only can a well-managed supply chain save enormously on the final price of consumer food products, increasingly the food industry is using careful supply chain management to satisfy consumer demands to know where their food comes from and precisely how it gets "from the farm to the fork".

These linkages include key infrastructure such as transportation routes and cold storage capacity. They also include human capacity to link producers with markets. In the food industry, producers and producer groups must be proactive in engaging with their markets. They need to know what their markets want and when they want it. They must be able to produce for the market and they must be flexible enough to adjust to changing markets. Croatian producers in general lack these skills.

Regardless of whether agriculture targets retailers, hotels, or processors, the food industry's sourcing strategy can be boiled down to the following: "As close as possible and as far away as necessary". Processors in Croatia that lack local raw materials are doing precisely that. The largest cheese producer in Pag is having cow's milk trucked in from Slovenia and the largest meat processor in Croatia has built a state-of-the-art frozen meat thawing facility that will enable him to handle 20 tons of imported frozen pork per day. Local production is not meeting the needs of these industry leaders, so they are doing the necessary.

Taking advantage of the potential markets for agricultural products afforded by an expanding tourism sector will require working hard to create those linkages. Growth in the food service industry associated with expansion of tourism does not automatically mean that Croatian agriculture will benefit. In fact, the general inability of the domestic food industry to take advantage of the rapid increase in the consumption of high-value food products in Croatia argues that the tourism boat will also sail without Croatian agriculture in tow. Unless there is a proactive strategy to capture this promising market, the future tourist food service industry on the Adriatic coast will do precisely what it does in other markets where the domestic food industry does not supply what they want, when they want it, and at a competitive price. They will simply import what they need.

B. Non-Competitive Production

For many agricultural and processed products Croatia is a very high cost producer and source of supply. Processors and even retailers note that imported products such as fruits and vegetables are often less expensive than domestic products. Meat and dairy products are also more cheaply imported than sourced locally. There are a variety of reasons for this reality.

At the farm level, input and production costs are high. Fertilizer from domestic sources is more expensive than on international markets. Other plant protection chemicals are less expensive in other countries. Animal feed costs reflect high internal grain prices resulting from inefficient production supported by subsidies. Simultaneously, the on-going use of less efficient genetic materials means lower production potential and lower yields. For example, the dual-purpose simmental dairy cow most often used means lower milk production than Holstein cows would provide and a lower quality beef animal than a beef breed would offer. The net result is higher cost milk and lower quality beef. Less experienced farmers often do not know how to maximize production.

Compounding the high basic production costs on the farm are inefficiencies caused by small production units. Moving small quantities of products raises collection or aggregation costs and handling costs. Processing enterprises operating at low levels of installed capacity have higher per unit costs. Relatively high wage levels and excess labor may also raise per unit processing costs.

Beyond the basic production, processing and distribution costs, government subsidies that are provided for almost all commodities, some on an area basis, enable and encourage inefficient production. Finally, small producers operating outside the formal system are not able to reclaim some portion of 22 percent VAT taxes paid on inputs. Their production costs are accordingly higher.

C. Farm Size

One of the recurring themes that emerged in the course of the assessment was the degree to which land is a constraint to the growth of the agricultural sector, at least as it

pertains to domestic agricultural production. One of the principal factors contributing to the non-competitiveness of Croatian production is the scale of farms—a vast majority of the land and other productive assets are held by small family farmers operating at or just above subsistence levels. To be more competitive in most products areas, Croatia must increase the operating size of its average farm. Yet the development of more commercially viable family farms is constrained by access to land.

Land holdings

There is little data to support the analysis of the private farming sector. While the average reported size of family farm holding is only three hectares, many farmers reportedly lease or obtain the use of land to increase their farm size. Leasing arrangements may be formalized through rental contracts, but are frequently informal arrangements between neighbors or relatives. In war affected areas, where land owners have left the country or are otherwise absent, residents have gained access to vacant land with the understanding that they must vacate the land upon the return of its owner. It is unclear, however, how this provision will be implemented, or the current legal standing of that land use.

Land sales are reportedly less common in rural areas due to land's value as social security and people's familial/historical attachments to land. Sales may be further constrained by the problem of title, discussed below. However, a study of the land market commissioned by DFID shows that sales of agricultural land account for almost one quarter of all land sales transactions.

Privatization and reorganization of the agrokombinats represents a potentially significant shift in land ownership patterns in rural areas. The agrokombinats have had the use of sizeable holdings of productive land resources. In a country where private land holdings were historically limited to 10 hectares and the average size land holding is 3 hectares, agrokombinats hold thousands of hectares. In areas such as Slavonia, agrokombinats control 50% or more of the land in their municipalities. Furthermore, unlike the fragmented private holdings, the agrokombinat land is held in large, contiguous tracts.

Law on Agricultural Land 2001

A new law, the Agricultural Land Act 2001, outlines the process by which the state will dispose of land to the private sector. The law requires local authorities to develop plans for the disposal of state-held land within their municipalities. These plans are subject to the approval of the Ministry of Agriculture and Forestry.

The plans that the municipalities must submit to the Ministry will outline a program for the management of their state land. This program must inventory the total surface of state owned agricultural land with a plan for designating specific parcels for different categories of land use. Each municipality must set aside a proportion of land to accommodate restitution claims. The remaining land is then earmarked for sale, concession or leasing, according to the Agricultural Land Law.

All sales, leases and concessions are bid competitively, though the law sets priorities for each category of land transaction. In the case of concessions, legal persons are given priority over family farmers. While there appears to be an understanding of the need for commercial producers to have access to larger, contiguous plots for efficient production, the law also reflects social/political pressure to increase access to land for rural residents more broadly.

The assessment team visited one municipality, where the local agrokombinat has been completely dismantled. The municipality has been managing the state owned land on short-term leasing arrangements and is in the process of putting together their management plan for submission to the Ministry. While this municipality appeared to have a relatively good understanding of the need to balance countervailing land use interests, we were told that many municipalities are not as far-sighted in their planning. In municipalities where the agrokombinats continue to operate, the municipal authorities may have less flexibility to negotiate rational land management plans. A representative Ministry of Agriculture also raised concerns as to the ability of the municipalities to develop their plans in a timely manner, given the complexities and their technical capacity.

Land ownership

According to most sources, Croatia has an adequate legal framework to support property rights. There are laws on

ownership, mortgage, registration and real estate transfer. Mortgage foreclosure is provided for under the Law on Execution. There were land confiscations during and after World War II and throughout the communist period. Laws on restitution of these lands have been adopted, but further revisions are being considered.

The principal problem in Croatia is the inconsistency between data in land registration books and the cadastre. This issue is said to be a major constraint to land market development and foreign direct investment. Banks and government sponsored guarantee programs will not accept land as collateral unless ownership is clearly demonstrated. According to the director of the Croatian Guarantee Agency, they won't even accept an application for participation in their program from a farmer who can not show clear title to his land, whether or not the land is being used as collateral. Further complicating these issues, there is a tremendous backlog of cases in the courts to resolve restitution claims and property right disputes.

The World Bank is developing a project to harmonize the property registry and cadaster. In select areas of the country they plan on harmonizing the data by resurveying for the cadastre, correcting the registry books, developing the capacity of the registry offices, and streamlining the transactions registration process. The Bank estimates that it will take 15 years to complete this work for the entire country. The proposed project will cover the first five years and focus on select urban and rural property.

D. Rural Credit

By all accounts, liquidity is not a problem in the banking sector in Croatia. Banks have plenty of money and are lending to enterprises, including enterprises in the agricultural/agribusiness sector. In recent years, a number of Croatian banks have been purchased and are now operated by foreign banks. Interest rates are low, relative to other transition economies of Eastern Europe, average 10-12 percent. If liquidity is not the problem, the most frequently cited constraint to accessing credit for small and medium enterprises and farmers is collateral. Most financial institutions require high rates of security on their loans, generally at least 150 percent. Moreover, they are hesitant to accept moveable property as collateral

and purchase price mortgaging is not common. SMEs and family farms frequently have difficulty meeting these collateral requirements.

Aside from the collateral problem, agricultural producers and SMEs do not have strategic orientation to markets that make them a good investment for a bank. They often seek money to develop production (or processing capacity) before they have explored the market demand for the product they plan on producing. Producers, processors, cooperative managers need to have a better understanding of business planning, cost accounting and other skills that will allow them to develop attractive loan proposals and increase the likelihood of their success once they receive credit.

The government of Croatia has several programs to facilitate flow of credit to SMEs. These include credit fund offered through the Ministries of Agriculture and Forestry, as well as by the Ministry of Small and Medium Enterprises. These credit funds are used to buy down interest rates on loans made from commercial banks to target beneficiaries.

The government also supports the Croatian Guarantee Agency, an autonomous agency that receives their funding through the Ministry of Finance. Since 1995, this agency has provided a guarantee on almost 3500 commercial loans to SMEs. Of these, approximately 65 percent have been to agricultural/agribusiness enterprises. The agency also provides small grants to many of these enterprises to cover the costs of business registration, feasibility studies, valuation of collateral and other expenses associated with the loan proposal. The agency will be close at the end of June 2001 and will re-open as the Croatian Agency for SMEs. In addition to its current activities, the agency will manage state properties (office and warehouse space) and coordinate/act as a clearinghouse for the activities of the various institutions and ministries that are concerned with SMEs.

There are several other credit funds supported by donor organizations in areas of special state concern. These areas are generally the former war affected areas and programs are targeted to assisting resettlement of returnees. UNDP programs provide loans to individuals and SMEs to purchase livestock or equipment, or make repairs to barns and other facilities. The UNDP supported program

implemented by LEDA in Sibenik/Knin region provides small start up loans at 6 1/2 percent interest secured by 3 co-signatures. CRS also implements programs in areas of special state concern with funding from USAID and WB. The micro-credit program funded by USAID provides loans from \$400 - 4000 to returnees for working capital or the purchase of livestock and equipment. Borrowers may repay 75 percent of the loan through a work exchange. The CRS also administers a World Bank grant program that provides up to \$80,000 for capitalization of cooperatives. So far they have worked with 7 cooperatives. The grant program purchases the requested equipment for the cooperative. The cooperative must repay 1/3 of the grant in cash. The remainder may be re-paid in-kind goods and services. This project operates only in Zadar and Sibenik/Knin regions.

Some alternative mechanisms for accessing credit have developed. Most notably, the assessment team found examples of intermediate traders and processors who have begun to assist their producers in accessing credit. These individuals are organizing the applications for producers and co-signing for the loans. Through these loans, producers are able to acquire funds to purchase the livestock, equipment or other inputs needed to meet the production requirements of the intermediary. There is often, but not always a contractual agreement that the producer will provide raw material to the processor or trader.

E. Successor Enterprises to Privatized Agrokombinats

Under market conditions with reduced subsidy payments and fair pricing of inputs and outputs, including land and labor, the agrokombinats have not demonstrated economic viability. Size and complexity that allowed or required cross-subsidies, larger than efficient capital investments, more labor than needed, little attention to production costs, poor planning, an inability to respond to a changing market and ineffective management structures collectively or individually were probably important factors in the poor performance. At the same time, the agrokombinats did provide a variety of services to neighboring or surrounding small private farmers such as markets for products, input supplies, tillage and harvesting services, etc.

It is believed with the breakup of the agrokombinats into smaller, more focused units that greater clarity of operations and ultimately more cost-effective enterprises would result. Two questions for this possible scenario emerge, however. First, will the new, smaller enterprises be really able to survive in a market economy and second, will they provide the same types and levels of services to smaller private farmers in the surrounding areas as the agrokombinat previously provided.

The answer to the first question undoubtedly requires more than simply breaking-up or downsizing enterprises. It will require that the new enterprises provide needed products or services at competitive prices in a market environment. In short, the entities will have to be able to demonstrate that the business strategy being followed, the scale of operations, the level of technology and manpower will enable them to operate at a profit. Management will need to be able to identify and produce for market demand, to plan and forecast, and to implement cost-accounting techniques. They will need to develop staff skills as needed, introduce new technology and be responsive to changes in input and output markets. Without training and some technical assistance, it is not a given that the staff who were not able to manage a larger operation will be any more successful after privatization. Moreover, they may not be able to obtain financial or other resources they need to reach efficient levels.

Assuming the privatization of the agrokombinats results in new efficient enterprises, there is no guarantee that service or input provision for small private farmers will be part of their operating strategy. New enterprises may eventually emerge to fill this role if small producers are engaged adequately in commercial production. However, input supply and/or marketing cooperatives may be an alternative mechanism for small farmers to secure needed inputs and services at favorable prices.

X. Opportunities

A. Tourism-Led Economic Growth

The Government of Croatia sees tourism as a major driver of both shorter and longer-term economic growth. They adopted a three-year program of support in mid-March, including low-interest loans. The objective is to create 30,000 new

jobs and generate an additional \$1.3 billion in revenue over the next three years. In terms of revenues, the sector saw growth from \$3.0 billion in 2001 to \$3.4 billion in 2002. The number of overnight stays grew by about 11 percent in 2001, the GOC hopes this trend will continue in the coming years. The indicated plans suggest even more rapid growth in the future, with tourism growing in importance as a percent of GDP.

For the agricultural and food processing industries, any growth in tourism represents an increase the quantities and/or value of food required. The demand from a growing tourism industry coupled with the existing deficit in domestic production, signals increased opportunity for fresh and processed food products. If Croatian products are price competitive with imported products, and local producers and processors establish solid links within food industry networks, there is potential for high value Croatian products to tap into this expanding market.

The tourism industry also provides seasonal advantages for some types of agricultural production. The peak tourist season (June-August) corresponds with a potentially peak period of vegetable production.

B. Growing Private Sector

The contribution of the private sector to the economy continues to grow at a good pace as privatization continues and the private sector provides the largest share of additional economic output. This is obviously related to long-run growth assumptions of over 3 percent.

C. Tariff Free Access for Agricultural Products

In the short-run, the lowering or elimination of tariffs on agricultural products may not be an opportunity in an aggregate sense since agricultural imports exceed agricultural exports for Croatia. However, for individual companies or specific products the reciprocity included in the negotiated agreements that Croatia has with many countries permits excellent access. The key will be Croatia's ability to increase production of products that are in demand at competitive prices. For products such as tuna, olive oil, organic foods, lower tariffs do provide an advantage for some products in select markets.

D. Skilled Workforce

While high wages are a potential constraint to competitive production, the Croatian workforce is well educated and has experience in working in industrial settings. Many workers have English or other European language skills, are computer literate and are oriented to work in a market environment. As compared to many transition economies, Croatia's engagement with tourism even throughout the communist period has left them with more of an orientation to customer satisfaction and other basic market principles.

E. High Quality Processed Products

Croatia has a number of world-class companies already producing a number of products that are able to enter the competitive world markets. Demand for these products seemingly exceeds supply. Availability of raw materials to process remains a problem but the market is not.

XI. Recommended Interventions¹⁸

All of the constraints outlined above are limiting growth of the agricultural sector, and participation of small producers in existing sector growth. Of these constraints, however, the team recommends assistance to mitigate the challenges posed by missing or failed market linkages and by non-competitive production. The other constraint areas identified above do need addressing for maximum benefit to sector growth. However, the magnitude of the problems and required intervention to resolve them, as well as the interventions currently planned by other donors make these of lower priority for Mission intervention in Assessment Team's judgment.

In intent and design, these interventions adhere to four principles. First, the intervention should address specific constraints with reasonable expectations that measurable results can be achieved with the available time

¹⁸ It is the Assessment Team's judgement that the proposed assistance interventions would be consistent with Bumpers Amendment requirements because the focus of these interventions is not on production, but rather on marketing and market linkages, and U.S exports of agricultural products to Croatia are very limited. Finally, the products expected to be targeted a) are produced for the domestic market where shortages for those products exist (i.e., milk and meat); b) are not produced in the U.S. (i.e., olives, specialty cheese); or c) would not result in a significant impact on U.S. exports of a similar commodity (i.e., wine).

and funding. Second, the intervention should result in sustainable economic activity over the long-run. Third, the target group at the producer level should be farmers and groups of producers that are currently or have a short-term potential to be commercially viable. Finally, the interventions should build on USAID strengths and experience in Croatia and the region, and not duplicate what other donors are doing or planning.

In order to address the targeted constraints, two inter-linked assistance interventions are recommended. The first component would promote **development of market linkages** throughout the food industry chain. This intervention would concentrate assistance in two areas: 1) to build links between food producers/processors and the tourism industry; and 2) to build links between animal product producers and processors. The second intervention component would promote the **development of small and medium enterprises**, including producer cooperatives.

A. Market Linkages: Food Industry Development from the Farm to the Fork

The proposed intervention approaches agricultural development from the perspective of the target markets where there is the greatest potential for collaboration between buyers and sellers in the market chain. The target clients are forward-thinking medium-sized producers or small producer coop managers and small or medium sized processors/buyers with an interest in developing efficient domestic supply chains.

It will be the task of the contractor to 1) make a realistic assessment of Croatia's current and possible production of identified products and 2) identify potential markets in the processing and tourist industry. A thorough competitiveness analysis that brings forward-thinking producers/coop managers to the table with innovative retailers and processors will be used to identify 2-3 pilot cases spanning the entire market chain which can serve as examples of how to mitigate constraints, develop market linkages and build institutional capacity. In order to keep the focus on market linkages and supply chain management, products requiring large investments in new production technologies should be avoided.

Depending on which constraints are determined to be priorities, the project will work to build capacity in meeting production quality requirements, promotion or processing. Alternatively, brand name development and capacity to meet customer delivery requirements may be considered more critical. The development of market information systems, improving the function of existing market information systems and the training of coop or association leadership on market information utilization are other possible areas of assistance.

Two program thrusts are proposed:

- **Tourism and high-value Croatian products.** This program thrust would support market linkage activities between producers of fresh and processed, high value products to the tourism sector, particularly the food service sector. Illustrative activities include:
 - Development of strategic plans for producer or processor organizations or their members
 - Joint strategic planning between Croatian tourism board, hotel/restaurant associations, processors and producers
 - Assistance in marketing Croatian tourism and food industry together
 - Capacity building in marketing through seminars, TA in market studies, customer service
 - Development of local Hotel/Restaurant suppliers as key intermediate traders between producers and food service industry
- **Animal production and processing.** This program thrust would support market linkages between producers and producers and processors in the dairy and hog sub-sectors. Illustrative activities include:
 - Support for obtaining of improved genetics and TA for production techniques to improve product quality and reduce costs
 - Brokering producer-processor relationships
 - Training for small producers that enables them to transition to income-producing business
 - Assistance to processors in implementing best international practices in both processing and management practices

B. Development of the Small and Medium Enterprise Sector

This recommended intervention would have two different target clienteles with often identical or similar needs. Both are critical to enable the effective linkage of producers to the market.

The first target group is small and medium enterprises that can provide services to smaller producers. Examples of such enterprises are agricultural input dealers, transportation companies, mechanization service providers, storage service facilities, technical or consulting agencies and marketing outlets or buying agents. Some of these service providers already exist and others are emerging, particularly as agrokombinats are privatized as a series of small, focused units and as new entities are established to provide services previously available through the agrokombinats.

The second target group is organizations that combine small producers around a common interest or need. The requirement for the producers may be securing needed production inputs or services in a timely or inexpensive manner or it may be joint grading or initial processing of agricultural products. Joint storage in improved facilities to take advantage of seasonal price variation or to be able to meet quantity and quality demands of larger processors or consumer markets are other possible rationales for such organizations. Finally, such groupings are often necessary just to be able to approach and negotiate with potential buyers who want larger quantities and who do not want to deal individually with many small producers.

Elements of the proposed interventions are as follows:

- institutional development and strengthening support
 - training and technical consultation
 - small strengthening grants
-
- **Small and medium enterprise support.** Although a wide range of enterprises operating in rural areas would be eligible for assistance, a special target group would be firms emerging from the privatization of the agrokombinats. These enterprises will have assets but may lack some of the business skills required to operate in a sustainable manner in a market economy. Types of assistance to be provided would include strategic, business and technical planning via

technical assistance and consultations. Such hands-on technical assistance would be supplemented by short courses in topics such as food industry safety and quality standards, cost accounting, financial planning, organizational development, personnel management, etc. Assistance in business plan preparation as part of attempts to secure needed financing might also be provided. It is expected that the Croatian consultant capacity developed through the CEP project would be used to provide some of the advisory, technical and training services. SME's being assisted would be expected to pay for services received. In rare cases, and with USAID approval, enterprises/organizations might be able to receive partial assistance to access consulting services. The implementing contractor would be required to develop criteria for selecting firms to receive assistance, and must show that this assistance would not distort the emerging market for domestic consultant services.

A minimum of 40 small and medium enterprises should receive direct or consulting support over the life of the project. A minimum of 20 training programs would be conducted with participants from a minimum of 100 individual enterprises.

- **Strengthening of existing or development of new, self-sustaining producer organizations.** As indicated above, the production of individual private commercial farmers will often be inadequate to satisfy the quantity needs of retail, wholesale or processor markets. Assembling or aggregating the production from several family farms to meet even minimum, buyer quantity requirements will often be desirable and/or necessary. It is also often more economical for producers when inputs are procured in larger quantities or on a group basis. From a developmental perspective, providing information and training on a group basis is likewise more cost-effective.

Such producer organizations may or may not already exist in the targeted areas. Where they do exist, they may or may not be focused on appropriate products or providing necessary services. Technical assistance would strengthen existing producer organizations as necessary so they may better serve the needs and

interests of their members. Where they do not exist, technical assistance would be provided in the establishment of associations and/or cooperatives. The emphasis would be on local level organizations. No assistance should be contemplated at the national level although local organizations would be encouraged to join and interact with regional or national organizations that can represent their interests.

Farmer cooperatives and associations being assisted would be eligible to receive one-time grants of up to \$40,000 to facilitate marketing activities. Typical uses of these funds would be for needed items of value-adding or processing equipment, upgrading storage facilities, to support an initial test marketing, to help organize a local promotion of a product or products, to enable producer participation in a Croatian fair or trade show, to help establish an office, etc. Matching support from the recipient group of an equivalent funding amount, in cash or kind, should always be required. The inclusion of specific criteria for such grants should be a requirement of initial work plans prepared by the implementing contractor.

A minimum of 20 producer organizations should be strengthened and/or created over the life of the project. These may be associations, cooperatives or other organizational forms that have an open membership policy. Evidence of strengthening would be sustainability, expanded member services, program of activities, etc., of the organizations assisted.

XII. Supporting Interventions

A. Land Use Planning

As the agrokombinats are privatized significant land resources will become available. According to the new Agricultural Land Law, municipalities with agrokombinats in their territories are responsible for developing the land management plans for these vast tracts of productive land. It is unclear, however, whether they have the technical skills or capacity to develop these plans. Moreover, countervailing interests may result in undermining the use of these larger tracts of land for commercial agricultural purposes.

The goal of proposed intervention would be to ensure the timely development of effective land management plans that promote commercially viable farm production units. An assessment would be made of the municipalities in which privatizing agrokombinats are located to determine their capacity to carry out the land management planning exercise. This would include determining the accuracy of their land inventory and their capacity for developing a rational land use plan. Technical assistance would be provided to municipalities as need to improve their capacity to evaluate proposals and develop alternative land use schemes on their territory.

Assistance could be provided through an existing SO 1.3 project contract, such as the Croatian Privatization Project. Depending on the assessment findings and the flexibility of the existing contract budget, some additional funding may be needed to provide adequate assistance.

B. Credit Access Improvement

Funds for a credit program should not included in this intervention package. The availability and terms of financing remain issues for many if not most small producers and processors as well. However, it has been concluded that the recommended intervention is not the vehicle to address the complex organizational, policy and management issues inherent in an agricultural credit activity. It was further concluded that the proposed market linkages and SME strengthening activities could be designed to strengthen the ability of agricultural producer groups and agribusiness enterprises to mobilize available credit within Croatia.

It is expected that the project technical assistance team would assist commercial family farmers, farmer organization, processors, wholesalers and perhaps retailers in solving financing issues on a systematic basis within the evolving environment. This will involve assistance in the preparation of business or marketing plans, completion of cost-benefit calculations and cash flow plans, participating in discussions with financing organizations and perhaps providing advice on securing credit from other sources. Training on credit planning and use issues might also be provided.

XIII. Relationship of Recommended Assistance Interventions to USAID/Croatia S.O. 1.3 Program

With this recommended project, USAID/Croatia would be initiating a new activity in the agricultural/agribusiness sector. The activity falls under the Strategic Objective 1.3, "Growth of a Dynamic and Competitive Private Sector". Within SO 1.3, the Project would support IR 1.3.2, "Strengthened Capacity of SMEs to Operate and Compete," and the lower level IR 1.3.2.3, "Strengthened Business Associations".

The Project would build on Mission assistance to the Croatian Privatization fund that is helping privatize several agrokombinats as well as other enterprises. The Project would also link closely with the Croatian Enterprise Promotion Activity by seeking to utilize consultants and training programs being developed. Finally, as an activity that seeks to make Croatian producers competitive, particularly in the domestic market, the project would learn from and hopefully be able to collaborate with the Croatian Competitiveness Project. This may include opportunities to work with the National Competitiveness Council that has been established.

Important links may also emerge with programs under S.O. 3.1. "Accelerated Return and Sustainable Reintegration of War-Affected Populations." The S.O 3.1 programs have as an objective linking agricultural producers to sources of financing and markets. The USAID-funded ECRA program provides assistance to returning families who have no or few productive assets, and assists in establishing SMEs and farmer organizations. Participation in the ECRA program will prepare producers and producer organizations to engage in the commercial activity envisaged for a market linkage program. The recommended market linkage program would be the next level of assistance, providing these nascent producer organizations with commercial links to processors and other food industry distributors.

XIV. List of Annexes

Annex I. Assessment Team Schedule and Persons/Organizations
Contacted

Annex III. List of References

Time: Monday, May 20th		Type	Address	Post City	Participants	Tel	E-mail address
15:00 Mission Director							
15:00 SO 1.3.			USAID, Humboldtova 4 USAID, Humboldtova 4	10000 Zagreb 10000 Zagreb		01 6040909 01 6040909	
Time: Tuesday, May 21st							
10:00 US Embassy			Andrije Hebranga 11/2	10000 Zagreb	Damijan Bencic	01 4923777	damjan.bencic@mail.doc.gov
12:00 FLAG, Osijek		Privatisation	PWC Osijek, Š.K.F. Šefera 12	31000 Osijek	Mr. Zlatko Janecic	031 213500	zlatko@flagint.hr
15:00 J.E.Austin/Hrvatska inicijativa za konkurentnost		Agency	Iblerov trg 5	10000 Zagreb	John Iekis	01 4629300	john@jeaustin.com.hr
15:00 J.E.Austin/Hrvatska inicijativa za konkurentnost		Agency	Iblerov trg 5	10000 Zagreb	Zrinski Pelajic	01 4629313	zrinski@jeaustin.com.hr
Time: Wednesday, May 22nd							
8:30 USDA		Foreign Agricultural Service	USAID, Humboldtova 4	10000 Zagreb	Andrea Misir	01 6040909	amisir@inet.hr
11:00 Price Waterhouse Coopers		Privatisation	Ivana Lucica 6a	10000 Zagreb	John R. Glover	01 4596108	john.r.glover@us.pwcglobal.com
14:00 Pioneer Sjeme d.o.o.		Trader	Culinecka cesta 2b	10000 Zagreb	Mr. Predrag Svarc	01 2988-746	predrag.svarc@pioneer.com
14:00 Pioneer Sjeme d.o.o.		Trader	Culinecka cesta 2b	10000 Zagreb	Mr. Marko Jukic	01 2988-746	marko.jukic@pioneer.com
Time: Thursday, May 23rd							
9:00 SO 3.4.			USAID, Humboldtova 4	10000 Zagreb	David H. Mandel	01 6040909	davmandel@usaid.gov
10:00 SO 3.4.			USAID, Humboldtova 4	10000 Zagreb	Petra Klein	01 6040909	pklein@usaid.gov
10:00 SO 3.4.			USAID, Humboldtova 4	10000 Zagreb	Dimitrije Todorovic	01 6040909	dtodorovic@usaid.gov
10:00 SO 3.4.			USAID, Humboldtova 4	10000 Zagreb	Ms. Livia Mimica	01 6040909	???@usaid.gov
12:00 FLAG, Dmris		Agency	Kralja Zvonimira 2	22430 Drnis	Mr. Daniel Gies	022 886102	daniel@flaginternational.com
12:00 Mercy Corps Int.		Humanitarians	Ilica 24	10000 Zagreb	Mr. Steven Zimmermann	01 4882950	szimmerman@hr.mercycorps.org
16:00 Deloitte Touche Tohmatsu		CEP programme	Deloitte Touche Tohmatsu	10000 Zagreb	Paul Guenette	1 202 5727180	pguenette@deloitte.com
Time: Friday, May 24th							
10:00 HUP/Croatian Ass.Of Employees		Agency	Bozidareviceva 13	10000 Zagreb	Mr. Stipan Bilic	01 2359-555	stipe.bilic@hup.hr
12:00 Ministry of SME		Ministry	Ksaver 200	10000 Zagreb	Ms. Dubravka Biscan	01 4698-335	dbiscan@momsp.hr
12:00 Ministry of SME		Ministry	Ksaver 200	10000 Zagreb	Mr. Boris Antunovic	01 4698-367	boris.antunovic@momsp.hr
14:00 Central European Initiative		BAS programme	Draskoviceva 34	10000 Zagreb	Mr. Krunoslav Placko	01 4817141	plackok@ceinet.org
16:00 Deloitte Touche Tohmatsu		CEP programme	Jurisceva 19	10000 Zagreb	Mr. Barrie B. Evans	01 4875522	bevans@usaidcep.com
16:00 Deloitte Touche Tohmatsu		CEP programme	Jurisceva 19	10000 Zagreb	Mr. Richard Wolfe	01 4875522	rwolfe@usaidcep.com
16:00 Deloitte Touche Tohmatsu		CEP programme	Jurisceva 19	10000 Zagreb	Mr. Heyley Alexander	01 4875522	halexander@usaidcep.com
Time: Saturday, May 25th							
7:00 Zagrebacka veletrznica/Wholesale market		Wholesale market	Zitnjak bb	10000 Zagreb	Mr. Josip Zrilic	01 2407342	mob 098 718192
Dolac, open market			Dolac	10000 Zagreb			
Time: Sunday, May 26th							
11:00 Journey to Osijek					Mr. Niko Marin	032 331604	
15:00 Tina		Intermediate trader	B. Jelacica 18	32100 Vinkovci	Mr. Dusan Sretic	032 566117	fax 032 566042
19:00 PZ Acas, Vera		Coop, pig	Milosa Obilica 1	32224 Trpinja			

19:00 PZ Acas, Vera	Coop, pig	Milosa Obilica 1	32224 Trpinja	Mr. Djordje Zivanovic	032 566117	fax 032 566042
19:00 PZ Acas, Vera	Coop, pig	Milosa Obilica 1	32224 Trpinja	Mr. Zeljko Boskovic	032 566117	fax 032 566042
Time: Monday, May 27th						
8:00 MIA, IPK Osijek-Meggie	AK	Zlatno polje 34	31000 Osijek	Mr. Ante Repusic	031 506388	fax 031 505585
10:00 University of Osijek, Faculty of Agricul	School	Tvrđa	31000 Osijek	Mr. Vlado Guberac	031 224278	gvlado@suncokret.pfos.hr
12:00 NOA, Credit Institution	Credit institute	Zupanijska 7/2	31000 Osijek	Mr. Tomislav Flegar	031 20466	noa@os.tel.hr
13:30 Biopa, Organic Production	Certification organisation	Reisnerova 64	31000 Osijek	Mr. Petar Jaksic	031 204949	biopa@os.tel.hr
13:30 Biopa, Organic Production	Certification organisation	Reisnerova 64	31000 Osijek	Mr. Hrvoje Sandukcic	031 204949	biopa@os.tel.hr
14:30 IPK Oranica	Producer	Zapadno predgradje 18	31000 Osijek	Ms. Jasna Matic	031 273683	uprava@oranica.hinet.hr
14:30 IPK Oranica	Producer	Zapadno predgradje 18	31000 Osijek	Ms. Roberta Knochl- Novokmet	031 273683	uprava@oranica.hinet.hr
16:00 Opcina/Municipality Semeljci	Municipality	Kolodvorska bb	31402 Semeljci	Mr. Giga Loncarevic	031 856310	fax 031 856310
18:00 Novi Berak d.o.o.	Farm	Berak bb	31402 Semeljci	Mr. Mirko Hes, Farmer	031 856082	
Time: Tuesday, May 28th						
8:00 Price Waterhouse Coopers	Privatization	PWC Osijek, Š.K.F. Šefera 12	31000 Osijek	Mr. Patrick O'Brien	031 213500	cpogenie@aol.com
8:00 Price Waterhouse Coopers	Privatization	PWC Osijek, Š.K.F. Šefera 12	31000 Osijek	Ms. Nada Kozul	031 213500	nada@flagint.hr
10:00 Klas	Intermediate trader	Brace Radica 47	31542 Magadenov ac	Ms. Romana Ivkovic	031 648200	fax 031 648201
10:00 Klas	Intermediate trader	Brace Radica 47	31542 Magadenov ac	Ms. Danijela Bosnjak	031 648200	fax 031 648201
10:00 Klas	Intermediate trader	Brace Radica 47	31542 Magadenov ac	Mr. Robert Bosnjak	031 648200	fax 031 648201
14:30 Poljoprivredno poduzece Orahovica	AK	Slavonska 3	33515 Orahovica	Ms. Dragica Vukosavljevic	033 673302	fax 033 673903
14:30 Poljoprivredno poduzece Orahovica	AK	Slavonska 3	33515 Orahovica	Mr. Mijo Abidic	033 673302	fax 033 673903
17:00 Vocko	Coop, Apples		34550 Pakrac	Mr. Igor Matek	034 438104	igor.matek@po.hinet.hr
17:00 NUPZZ-Independent Agricultural Ass.	Coop, Ass.	Petra Preradovica 71	43500 Darugar	Ms. Mirsada Madzarevic	034 440 340	mirsada@nupzz.hr
Time: Wednesday, May 29th						
9:00 World Bank	Credit institute	Kennedy-jev trg 6b	10000 Zagreb	Ms. Indira Konjhodzic	01 2357230	ikonjhodzic@worldbank.org
13:00 Gavrilovic	Processor	Gavril. Trg 1, Petrinja	44250 Petrinja	Mr. George Gavrilovic	044 811 041	gavrilovic@gavrilovic.hr
Time: Thursday, May 30th						
AM Paska sirana Pag	Processor	Splitska bb	23250 Pag	Mr. Ante Ostarić, Director	023 611063	fax 023 611024
PM Mardesic, sardine caning factory	Fish caning		23777 Sali, Dugi otok	Mr. Dinko Basioli, GM	023 377030	
PM Adriatic tuna d.o.o.	Fish industry	Gazenica bb	23000 Zadar	Mr. Zeljko Zupoic	023 341815	fax 023 341885
PM Marituna dd	Fish industry	Gazenica bb	23000 Zadar	Mr. Miro Mirkovic	023 341815	miromirkovic@marituna.hinet.hr
Time: Friday, May 31st						
11:00 SMS, Split	Processor	Kopilica 5, Split	21000 Split	Mr. Srdjan Mladinic	021 490722	info@sms.hr

12:30 Dalmacijavino	Processor	Obala K. Domagoja 15	21000 Split	Mr. Zelimir Basic	021 338 555	dalmacijavino@st.tel.hr
12:30 Dalmacijavino	Processor	Obala K. Domagoja 15	21000 Split	Mr. Ivan Tvrdic, GM	021 338 555	dalmacijavino@st.tel.hr
12:30 Dalmacijavino	Processor	Obala K. Domagoja 15	21000 Split	Mr. Matanovic, Chairman	021 338 555	dalmacijavino@st.tel.hr
12:30 Dalmacijavino	Processor	Obala K. Domagoja 15	21000 Split	Ms. Mirjana Vrdoljak	021 338 555	dalmacijavino@st.tel.hr
12:30 Dalmacijavino	Processor	Obala K. Domagoja 15	21000 Split	Ms. Velinka Runjic	021 338 555	dalmacijavino@st.tel.hr
12:30 Dalmacijavino	Processor	Obala K. Domagoja 15	21000 Split	Mr. Damir Jakus	021 338 555	dalmacijavino@st.tel.hr
Time: Saturday, June 01st						
8:00 Hotel Kolovare	Hotel	Boze Perica 14	23000 Zadar	Mr. Marko Mijic	023 203 200	hotel-kolovare-zadar@zsd.tel.hr
8:00 Punta skala	Hotel	Vlahe Paljetka 2	23000 Zadar	Mr. Ivica Zdrlic	023 211248	generalmanager@puntaskala.hr
8:00 Internod	Hotel	Hotel Pinia	23231 Petrcane	Mr. Eduard Petani	023 202500	
8:00 Borik dd	Hotel	Borik	23000 Zadar	Ms. Marija Roncevic	023 205522	
8:00 Turisthotel dd	Hotel	Siroka ul. bb	23000 Zadar	Mr. Zarko Knezevic	091 3211947	veletrznica-benkovac@zd.hinet.hr
10:30 Veletrznica Benkovac	Wholesale market	Benkovacke 17	23420 Benkovac	Mr. Emil Stolic	022 661 012	crsrkn@zg.tel.hr
12:00 CRS project in Zadar-Sibenik region	Humanitarians	Knin, Trpimirova 59	27777 Knin	Mr. Marin Ivan	098 445 687	lera-krka@si.hinet.hr
13:00 Leda-Local Development Agency, Drnis	Agency	Trg Kulture 7	22210 Drnis	Mr. Boris Berovic		
Time: Monday, June 3						
10:00 Chamber of Economy	Chamber	Rooseveltov trg 2	10000 Zagreb	Mr. Dubravko Mikulic	01 4826 068	poljoprivreda@hgk.hr
10:00 Chamber of Economy	Chamber	Rooseveltov trg 2	10000 Zagreb	Ms. Ruzica Markovic	01 4826 068	bmarkovic@hgk.hr
12:00 Ministry of Agriculture	Ministry	Vukovarska 78	10000 Zagreb	Ms. Lidija Markoci	01 6106 677	
14:00 International Rescue Committee	Humanitarians	Draskoviceva 80/V	10000 Zagreb	Mr. Gregory Beck	01 4921 566	
14:00 International Rescue Committee	Humanitarians	Draskoviceva 80/V	10000 Zagreb	Mr. Slaven Aljinovic	01 4921 566	slaven.aljinovic@zg.hinet.hr
Time: Tuesday, June 4						
9:00 SO 1.3.		USAID, Humboldtova 4	10000 Zagreb		01 6040909	
10:00 Catholic Relief Service	Humanitarians	Gotovceva 1	10000 Zagreb	Mr. Drago Vrucinic	01 4553 139	crs2@zg.tel.hr
10:00 Catholic Relief Service	Humanitarians	Gotovceva 1	10000 Zagreb	Mr. John G. Connolly	01 4553 149	crs@zg.tel.hr
12:00 UNDP	Embassy	Ilica 207	10000 Zagreb	Mr. Cornelis Klein	01 3712 630	cornelis.klein@undp.org
12:00 UNDP-UNOPS	Embassy	Ilica 207	10000 Zagreb	Mr. Denis van Dam	01 3712 619	unops.cro@si.tel.hr
14:00 Hrvatska garancijska agencija	Credit institute	Ilica 49	10000 Zagreb	Mr. Veljko Paus	01 4846 622	vpaus@hga.hr
Time: Wednesday, June 5						
10:00 Ministry of Science and Technology	Ministry		10000 Zagreb	dr. Maric/ Mrs. Jakovac	01 4594527	fax 4594429
11:00 European Bank for Reconstruction	Credit institute	Petrinjska 59/V	10000 Zagreb	Mr. Andrew Krapotkin, Director	01 4812 400	krapotk2@ebrd.com
14:30 European Union	Embassy	Massarykova 1	10000 Zagreb	Ms. Laura Garagnani	01 4896 525	laura.garagnani@cec.eu.int
Time: Thursday, June 6						
9:00 Croatian Central Labour Exchange office	Agency	Radanicka 1	10000 Zagreb	Ms. Biserka Bulic	01 67???	biserka.bulic@hzz.hr
11:00 Privredna banka Zagreb - PBZ	Credit institute	Ribnjak 14	10000 Zagreb	Mr. Darko Profuntar	01 4811264	darko.profuntar@pbz.hr

15:30 Presentation

USAID, Humboldtova 4

10000 Zagreb

01 6040909